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KZ

SUBJECT: KAZAKHSTAN: PRIME MINISTER BRIEFS BOEHNER CODEL
ON ECONOMIC AND ENERGY ISSUES

REF: (A) ASTANA 1220 (B) ASTANA 0678 (C) ASTANA 0924

Classified By: Ambassador Richard E. Hoagland, 1.4 (b), (d)

11. (C) SUMMARY: On August 8, Prime Minister Karim Masimov briefed a U.S. Congressional delegation led by House Minority Leader John Boehner (R-OH) on a wide range of economic and energy issues. Masimov said Kazakhstan is showing signs of recovery from the global economic and financial crisis, and he detailed his vision for Kazakhstan's long-term development and economic diversification, even as he acknowledged the country's dependence on oil exports for the foreseeable future. Masimov judged that China has become stronger as a result of the global financial crisis, but that Russia has not responded well and is in serious difficulty. After one of Masimov's advisors outlined the government's financial-sector recovery plan, Masimov told the Congressmen that Mukhtar Ablyazov, former Chairman of BTA Bank, "will soon be as famous as (Bernard) Madoff. But your Madoff is in jail; ours is in London." END SUMMARY.

12. (C) Speaking fluent English, Prime Minister Masimov was relaxed and displayed a sense of humor during a late Saturday afternoon meeting with a U.S. Congressional delegation led by Minority Leader Boehner during which he responded with candor and in detail to questions about energy, agriculture, banking, education, and health care. After one Congressman described the difficulty that east Texas has had trying to diversify its economy, reduce its dependency on oil revenue, and stabilize its banking sector, Masimov joked, "Are you sure you're not talking about Kazakhstan?" The Prime Minister was flanked by Deputy Minister of Foreign Affairs Nurlan Yermekbayev and Vice Minister of Energy Lyazzat Kiinov, while two Western banking advisors were in back-bench positions waiting to brief. Other members of the Congressional delegation included Rep. Dan Boren (D-OK), Rep. Jo Bonner (R-AL), Rep. Dave Camp (R-MI), Rep. Tom Latham (R-IA), and Rep. Greg Walden (R-OR).

APPRECIATION FOR U.S. POLITICAL AND ECONOMIC SUPPORT

13. (C) Masimov told the delegation he was grateful for the political support and private investment Kazakhstan has received from the

United States since Kazakhstan achieved independence in 1991. "We have achieved a lot, thanks to the support of the United States," he said. "Without it, things would have been very different." Masimov acknowledged the importance of U.S. economic and technical assistance for market reforms, thanked the United States for backing Kazakhstan's bid to become 2010 Chairman-in-Office of the OSCE, noting that Kazakhstan will be the first country from the former Soviet Union to occupy that office.

EARLY SIGNS OF ECONOMIC RECOVERY

14. (C) Rep. Boehner informed Masimov that the purpose of the Congressional delegation's visit to Kazakhstan was to learn more about the country's current economic conditions and developments in the energy sector. In response, Masimov provided a brief history of Kazakhstan's economic development since independence, noting that Kazakhstan has experienced both the best and the worst aspects of globalization. Prior to August 2007, he said, Kazakhstan's commercial banks enjoyed "unlimited access" to global financial markets and raised capital with little trouble. Then, during the early days of the financial crisis in August 2007, Kazakhstan's banks were suddenly cut off from the market, and found themselves in a very difficult situation, unable to service their external debt. According to Masimov, however, the economy is showing signs of improvement. "August 2009 is much better than August 2008," he said. "We experienced 3 percent growth in 2008, and I believe that we will again show positive growth before the end of this year." Masimov cited statistics to bolster his claim, informing the delegation that unemployment declined from 7 percent in July to 6.6 percent in August.

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OIL AND GAS ARE KAZAKHSTAN'S BREAD AND BUTTER

15. (C) Masimov noted that all of the major international oil companies are present and active in Kazakhstan, including U.S. companies Chevron, ExxonMobil, and ConocoPhillips. He candidly acknowledged that, "from time to time, we have some disagreements, but in general, we are able to find a solution that is within the law, and mutually agreeable." As evidence, he pointed to the recently negotiated contract with ConocoPhillips to explore and produce the sizeable offshore N Block, Kazakhstan's first major new deal in years. The Prime Minister reaffirmed the government's multi-vector oil transportation policy, and said that although Kazakhstan exports most of its oil through Russia via the Caspian Pipeline Consortium (CPC) and Atyrau-Samara pipelines, the government is determined to develop alternative export routes to the west via the Baku-Tbilisi-Ceyhan (BTC) and to the east via the newly-completed China pipeline. Masimov said that Kazakhstan is "not as strong" in natural gas production as in oil production and made a distinction between Kazakhstan and Turkmenistan in this regard. In fact, Masimov confided his own surprise at learning that by 2015, Kazakhstan will not produce enough natural gas to meet domestic needs. To help meet demand, Masimov said the government is constructing a pipeline that will transport gas from the northwest, where there is overcapacity, to the south, where there is a deficit. "This is a national security issue for us," he declared. Masimov said that the government's contract to supply Russian gas monopoly Gazprom will expire in 2015, implying that Kazakhstan will likely then consume the gas it now exports to Russia. Masimov pointedly noted that, "before 2006, we did not receive a fair price for our gas from Russia, but since 2007, we have received a European price, minus transportation expenses."

WHY KAZAKHSTAN IS LIKE CANADA AND AUSTRALIA

16. (C) Rep. Boren asked the Prime Minister to describe his vision and expectations for the next generation of Kazakhstanis, particularly if oil and gas exports are no longer the centerpiece of the economy. Masimov responded with enthusiasm and optimism in describing Kazakhstan's future economic and social development. He said that reforming health care and mortgage finance are among his

top priorities and joked, "Unfortunately, we don't have Fannie Mae or Freddie Mac here yet!" Drawing an interesting analogy, the Prime Minister compared Kazakhstan to Canada or Australia, countries with large territories and relatively small populations, like Kazakhstan. He said he has studied their national development strategies, and observed that Canada and Australia have invested in the development of "three or four major cities" in order to achieve a sustainable, long-term impact on national development. Masimov said the government of Kazakhstan is considering a similar strategy that would entail investments in infrastructure, health care, and education in targeted urban areas, although he did not name the ones he had in mind. Among Kazakhstan's major infrastructure projects, Masimov highlighted the \$3 billion, 3,000-mile highway from Russia to China that he said will create new opportunities for small and medium enterprises. He also said that Kazakhstan is developing new railway links to China and Turkmenistan, touted a recently opened General Electric plant in Astana that assembles railroad locomotives, and confirmed plans to build an energy hub in Aktau on the Caspian Sea.

COMPETITION IS THE KEY

17. (C) Rep. Camp asked the Prime Minister to describe the government's plans for health care reform. In response, Masimov said that his main priority is to introduce greater competition, so that private hospitals can compete with state-owned hospitals on cost and quality. "The competitiveness of the economy is the key issue," he said. Masimov acknowledged that Kazakhstan is dependent on the export of oil, gas, and mineral resources, "but this cannot last

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forever," he said. "One day, it will stop. And when it does, we want the world to continue to do business here. We want people to say, 'Kazakhstan has the best legal system, the best IT infrastructure, the best hotels, the best airports in the region.' We want to be like Singapore in Central Asia."

AGRICULTURE AS IMPORTANT AS OIL AND GAS

18. (C) Rep. Latham asked the Prime Minister how important the agricultural sector is to Kazakhstan's economy. Masimov answered that agriculture is "as important as oil production and exploration. In fact, from a social perspective, it is even more important than oil." According to Masimov, 47 percent of the population of Kazakhstan lives in rural or agricultural areas, and 23 percent are directly employed in the agricultural sector. Masimov acknowledged that Kazakhstan's agricultural productivity is not as high as it should be and said, "there is room for improvement." First and foremost, he said, Kazakhstan is a grain producer, with 16 million tons produced in 2008, of which 4-5 million tons were exported. Masimov claimed that Kazakhstan is the largest grain supplier to the countries of Central and South Asia, although he noted that Kazakhstan prefers to sell grain products rather than grain itself. He also said that Kazakhstan is a major producer of meat, particularly beef and lamb, and said they are eager to meet a greater share of the demand for meat from Russia, which he said even now buys \$2 billion of meat per year. Calling investment in agriculture the government's "number one priority" for economic development, Masimov said Kazakhstan needs new technology, new machinery, and new genetic stock to increase efficiency and productivity. "We are committed to this," he insisted, "and we will make it happen."

"THEY ARE DIFFERENT FROM US"

19. (C) Masimov stressed the importance of education to Kazakhstan's long-term development, calling the government's decision to pay for 3,000 scholarships abroad each year, "the best investment we can make in our future." He drew a striking distinction between his generation, and Kazakhstan's future generation of leaders. "Our young people studying at universities here and abroad are different from us. We all have a Soviet background. They don't. The Soviet experience is still in our minds. They don't think that way. And that is very important for Kazakhstan's future."

CHINA GAINS STRENGTH WHILE RUSSIA STRUGGLES

¶10. (C) Rep. Bonner asked the Prime Minister how other countries in the region have managed their response to the global economic crisis.

In response, Masimov was direct and honest. "China has done very well," he judged. "They have benefitted from this crisis, and have become stronger and stronger as a result. I don't want to say that they have become aggressive, but step by step, they have become more influential, certainly in this part of the world, as a result of the crisis." Masimov described how China approached Kazakhstan earlier this year with an offer to lend the government \$10 billion "on very favorable terms, from one sovereign to another" (reftel B). He said that \$5 billion of the loan will be invested in the oil and gas sector, and \$5 billion will be used to help diversify the economy. Speaking candidly, he told the delegation, "We would have preferred to take the money from someone else, but no one else offered." About Russia, Masimov said Moscow continues to face severe economic difficulties, and he does not forecast a quick turnaround. "I told Putin myself, 'You are not managing this crisis very well,'" he said.

BANKING-SECTOR EXIT STRATEGY

¶11. (C) Rep. Walden (R-OR) asked the Prime Minister if the government had an exit strategy for the financial crisis. In response, he said, "I thought you would ask me about that!," turned to his left, and summoned to the table Marcia Favale-Tarter, a Western banking advisor who owns her own consulting firm and regularly advises the Prime Minister and the Chairman of National

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Welfare Fund Samruk-Kazyna, Kairat Kelimbetov. Favale-Tarter, who clearly has the Prime Minister's confidence, explained the government's plans to the delegation. She pointed out that the government has taken majority ownership of only one bank and has made no sovereign guarantees to the other banks in which it owns a minority stake. "We only intervened in this case in order to limit the systemic risk." (NOTE: Favale-Tarter was referring to BTA Bank, in which the government owns 75 percent. The government acquired a 25 percent share in three other leading commercial banks. See reftel ¶C. END NOTE). Favale-Tarter said a creditor's committee, which includes the Export-Import Bank, had been formed to restructure BTA Bank's outstanding debt, and said they expect to reach consensus by September 15. She added that a similar creditor's committee had already signed an agreement to restructure debt held by Alliance Bank, and said that BTA Bank's future as a going concern would be resolved either by attracting a strategic investor like Russia's Sberbank, or "via market forces." Masimov noted sardonically that the former chairman of BTA Bank, Mukhtar Ablyazov, "will soon be as famous as your (Bernard) Madoff. But your Madoff is in jail; ours is in London."

¶12. (C) As the delegation left the room, Masimov stopped the Ambassador and commented, "I think this was an important meeting. I'm glad I did it, even if it was a Saturday afternoon."

¶13. (U) Congressman Boehner did not clear this cable, but authorized that it be sent.

HOAGLAND